Other States	448
Total	2,203

Historically, revenues for the average inmate telephone have been substantially higher than for a public pay telephone due to higher usage rates and the fact that inmates may only make collect calls, which have the highest revenue per call after person-to-person calls. Furthermore, maintenance and related labor costs for inmate telephones are lower than for public pay telephones due to the use of automated operator services and the lack of coin collecting and coin mechanism repairs.

Operations

Within correctional facilities, the Company currently utilizes automated operator calling systems from a number of providers. All of these systems limit inmates to collect calls. In facilities with more than 50 inmates, the Company generally installs its proprietary prison pay telephone system. This calling system is a configuration of proprietary software based on an integrated microcomputer platform and basic telecommunications hardware consisting of dialers and storage modules.

The system is programmed to record the details of each call (i.e., the number dialed, the "bill to" number and the length of call). The call detail is polled (extracted) from each system on a daily basis into the system's centralized billing center. The Company then rates the calls according to the Company's state and federal tariffs and according to any contractually agreed upon rates, and then bills the calls in the manner described in "Public Pay Telephones-Billing and Collection." The Company's proprietary prison pay telephone system provides extensive anti-fraud, call monitoring and surveillance capabilities for the correctional facilities where its inmate systems are installed. These include reports of frequently called numbers, calls of longer than normal duration and calls by more than one inmate to the same number. Upon request, the Company will provide the facility with the specific call detail.

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Service

The systems in each facility are provided and installed at no cost to the governmental agency. The Company shares a percentage of the revenues it receives with the governmental agency. The Company generally provides all service-related activities. Service issues are reported to the Company's Technical Support Center through a 24-hour, toll-free (800) number. Service is typically restored on a major outage within 48 hours. Most problems are corrected remotely and, generally, an on-site visit is not required.

Competition

In the inmate telephone business, the Company competes with approximately 20 independent providers of inmate telephone systems, the LECs and interexchange carriers. The Company believes that the principal competitive factors in the inmate telephone market are rates of commissions paid to the correctional facilities, system features and functionality, service and the ability to customize inmate call processing systems to the specifications and needs of the correctional facility. The Company competes for business primarily on local, county and state levels. The cost of market entry and the complexity of the bid process increases proportionally with respect to the size of the correctional facility. While the local and county markets are somewhat fragmented with many service providers, state correctional facilities are generally bid on a single statewide contract basis. Depending on the type of facility and the particular state, the Company must direct its marketing efforts to municipal purchasing officers, enforcement or jail administrators or to the independent contractors that operate the facility. The Company currently provides no inmate services to federal facilities. During 1995, competitive pressures in the inmate telephone business resulted in an erosion in margins on new contracts and appeared to limit the prospects for long-term growth and profitability. The Company believes that a growth strategy focused on servicing local and county facilities may provide some insulation from further erosion of margins involved in larger state and federal bids. In addition, a recent FCC ruling removing RBOC inmate operations from the regulated rate base, coupled with the provisions of the Telecom Act, may restore greater viability to the inmate telephone business although there can be no assurances of this.

OTHER OPERATIONS

Long-distance Reseller

The Company has developed a program to "resell" certain operator (0+/0-) services and transmission (1+) services to other independent pay telephone providers. The company is able to arbitrage these services to smaller payphone companies based upon the favorable higher volume terms and conditions under which the Company is able to obtain the services from the underlying local and interexchange carriers. Network and operator services which the Company is authorized to resell, include those of AT&T, MCI and Ameritech.

PREPAID CALLING CARD/INTERNATIONAL TELEPHONE CENTERS

In December 1994, in an effort to return its focus to its core public pay telephone business, the Company's Board of Directors approved the sale of the Company's prepaid calling card and international telephone center operations.

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Prepaid Calling Card Business

In March 1994, the Company sold certain assets in connection with the Company's New York public telephone centers to Global Link Teleco Corporation, then known as Phone Zone Teleco Corporation, ("Global Link") for a total purchase price of $2.5 million as well as a 10% equity interest in the acquiror. These assets were sold after the Company decided it would concentrate on providing telecommunication services to the retail telephone centers owned by Global Link while Global Link concentrated on managing and opening additional retail centers.

As part of its decision to divest itself of non-strategic assets, in February 1995, the Company sold substantially all the assets of its prepaid calling card business to Global Link for $6.3 million consisting of $1.0 million in cash, a $5.3 million in promissory note due February 1998, bearing interest at 8.5%, payable quarterly and shares of common stock of Global Link. As a result of the February 1995 transaction, the Company's interest in the outstanding common stock of Global Link was 19.99%.

On March 1, 1996, Global Link consummated a merger transaction (the "Merger") with Global Telecommunications Solutions, Inc. ("GTS"). In connection with the Merger, the Company exchanged its outstanding notes and other receivables including accrued interest and its 19.9% equity ownership in Global Link for shares of GTS common stock, $0.6 million in cash and $1.5 million of notes receivable with various due dates through September 1997. Mr. Jody Frank, a director of the Company, is a shareholder of GTS.

International Telephone Centers

In September 1995, the Company sold its approximately 24% interest in Artel Business & Telecommunications, Inc. ("Artel"), an international telecommunications joint venture in Russia which was established to provide international telephone access and intercity service to selected cities in Russia through public telephone calling centers in Moscow. The sale was to Alternative Telecommunication Services International Limited, the Company's partner in Artel. The Company received $0.5 million in cash and a promissory note for $1.5 million bearing interest at 8% to be paid in six installments over two years.

DISCONTINUED OPERATIONS

Cellular Telephone Operations

In December 1994, as part of its effort to return its focus to its core public pay telephone business, the Company adopted a formal plan to divest itself of its cellular telephone operations conducted through PTC Cellular, Inc. ("PTCC"), the Company's 90% owned subsidiary. PTCC operated cellular telephones installed in rental cars as well hand-held portable cellular telephones.

In November 1995, substantially all of the assets of PTCC were sold to Shared Technologies Cellular, Inc. ("STC") effective as of November 1, 1995. The assets were sold for a promissory note in the amount of $2.0 million payable semiannually with a term of 5 years and an interest rate of 8%, a potential $2.5 million royalty earn-out, shares of STC common stock and $0.3 million in cash. STC also assumed the payment of $1.2 million of PTCC's liabilities. In addition, the Company's hand-held portable cellular telephone assets were sold to STC in July 1995 for approximately $0.2 million in cash.

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REGULATION

The Company's operations are significantly influenced by the regulation of public pay telephone, inmate telephone, long-distance reseller and other telecommunications services. Authority for regulation of these services has traditionally been vested concurrently in the FCC and the various state public utility commissions. Regulatory jurisdiction has generally been determined by the interstate or intrastate character of the subject service, and the degree of regulatory oversight varies among jurisdictions. While most matters affecting the Company's operations fall within the administrative purview of these regulatory agencies, state and federal legislatures and the federal district court administering the AT&T Divestiture consent decree have also been involved in establishing certain rules governing aspects of the Company's operations.

Passage of the new Telecom Act (see "Public Public Pay Telephone Industry Overview") vests broad new authority in the FCC with regard to the regulation of public pay telephone services. As an outgrowth of the Telecom Act, the Company believes there will be an expansion of the FCC's role in shaping overall regulatory requirements for the public pay telephone industry while there will be a decrease in the respective roles of state regulators and the AT&T Divestiture court as it pertains to public pay telephone service although there can be no assurances given the limited experience of the industry under the Telecom Act. Specifically, pursuant to Section 276, the rules adopted by the FCC under the new payphone provisions of the Telecom Act will preempt any inconsistent payphone regulation by a state authority. Moreover, based upon the general interpretation given throughout the telecommunications industry, once the FCC adopts regulations to implement Section 276, there will be no effective ongoing role of the AT&T Divestiture court for any purpose relevant to the Company's operations. Although this expected restructuring of the traditional jurisdictional and regulatory authorities for public pay telephone service comports with the best current information available to the Company, final analysis must await the adoption of rules by the FCC within nine months of the passage of the Telecom Act, as provided under the Telecom Act, and the conclusion of any potential litigation contesting the FCC's action. Pending adoption of the FCC's Telecom Act implementation rules, the Company believes that the prior federal and state regulatory structures will remain applicable, and the Company will continue to operate in accordance therewith.

State Regulation

State regulatory commissions have historically been responsible for regulating the rates, terms and conditions of intrastate public pay telephone and inmate telephone services. This has involved the setting of rate ceilings on service provided to end users of the payphone; establishing rates paid by competitive public pay telephone providers to the LEC's for lines and local/intraLATA services; imposing mandatory service and operational requirements and, in several cases, establishing an intrastate "dial-around" compensation or "set use fee" mechanism for payphone providers. As discussed above, these existing state regulatory rules are subject to significant revision, and the Company believes preemption of some aspects of state regulation may occur on a prospective basis pursuant to the terms of the Telcom Act and the regulations to be adopted thereunder by the FCC.

To date, the degree to which states regulate the types of services offered by the Company varies widely, from certain states which do not require any certification or authorization to operate within the state, to other states that have prohibited non-LEC public pay telephone services entirely. In most states which permit such services, approval to operate in the state involves the submission of a certification application and an agreement by the Company to comply with the rules, regulations and reporting requirements of the state. The Company has obtained the requisite regulatory approvals to provide public pay telephone, and where applicable, inmate telephone services, in all states in which the Company currently provides such services.

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Although there can be no assurances, the Company believes that other provisions of the Telecom Act may allow preemption of state regulations otherwise prohibiting public pay telephone competition within a state, which would create the opportunity to provide service in all state jurisdictions including the four that have limited entry to date: Alaska, Connecticut, Hawaii and Oklahoma. In addition, Hawaii and Oklahoma now have proceedings underway that may result in the lifting of competitive payphone entry restrictions at the state level even prior to any challenges of state bans under the Telecom Act. A petition, based on the Telecom Act, to preempt Connecticut's ban on provision of payphone servicing by independent providers has been filed at the FCC.

A number of states such as Illinois, Iowa, Michigan, Wisconsin and Wyoming have increased their rate for local coin calls to $.35 and an increasing number of states are considering taking that action. The Company cannot predict when or if such increases will be enacted by those states.

The Company is also affected by state regulation of operator services, either directly with respect to operator services provided by the Company or indirectly through the impact upon the operator services providers utilized by the Company. Typically, state regulatory bodies have adopted intrastate provisions that are similar or identical to the regulations adopted by the FCC pursuant to the Telephone Operator Consumer Services Improvement Act of 1990 ("TOCSIA"). These regulations address "branding", "posting" and "unblocking" requirements for public public pay telephones, to which a significant number of states have also added rate regulation in the form of rate "ceilings", reporting requirements, and restrictions on the handling of certain call categories (i.e., "0-"/"0+" intraLATA). The Company, or its designated carrier(s), have obtained the required intrastate operator service authorizations, including, where applicable, certificates of public convenience and necessity and approval or acceptance of tariffs in all jurisdictions in which the Company provides service. As with the future regulation of public pay telephone and inmate services, the scope and application of state regulatory requirements to operator services provided in a public pay telephone context remain uncertain, pending implementation of the new Telecom Act by the FCC.

The Company is certificated as an operator service provider/interexchange carrier, or has the right to provide operator and interexchange services under its PTC Services brand in the following states: California, Colorado, Florida, Georgia, Illinois, Kansas, Louisiana, Maryland, Michigan, Missouri, Nebraska, New Jersey, New York, Pennsylvania, Rhode Island, South Carolina, Texas, Utah, Virginia and Washington.

Federal Regulation

Regulation of the public pay telephone and inmate telephone businesses at the federal level has traditionally not been as detailed or comprehensive as the state regulatory regimes described in the preceding section. The FCC, since first authorizing the registration and interconnection of "instrument implemented" public pay telephones in 1984, has primarily addressed issues of basic interconnection to the Public Switched Network for the provision of interstate telecommunications services from payphones, implementation of the provisions of TOCSIA involving "branding", "posting", "rate quoting", and "unblocking" access code dialing to all operator services providers from public pay telephones, establishment of "dial-around" compensation for interstate carrier access code calls from public pay telephones and the handling of general consumer complaints with regard to public pay telephone services.

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The Company believes that the passage of the Telecom Act marks a significant change in the form and scope of prospective federal regulation for public pay telephone service and hence for providers of the service, including the Company. The Telecom Act defines "payphone service" to mean "the provision of public or semipublic pay telephones, the provision of inmate telephone service in correctional institutions, and any ancillary service." Under Section 276 of the Telecom Act, the FCC is charged with implementing rules in nine months that will: (i) establish a comprehensive compensation system to ensure that public pay telephone providers are fairly compensated on all intrastate and interstate calls made from their public pay telephones (excluding only 911 calls and telecommunications relay service calls for hearing disabled individuals); (ii) discontinue traditional interstate and intrastate payphone subsidies for LEC payphones from the regulated rate base operation of the LECs; (iii) prescribe a set of safeguards for RBOC payphone service to eliminate future discrimination or subsidies in favor of RBOC payphone services; (iv) provide for the RBOC's ability to select and contract with interLATA carriers for RBOC payphones, subject to contractual rights negotiated and vested with the location provider and to a potential FCC finding that this interLATA selection authority for the RBOCs is not in the public interest; and, (v) provide for all payphone service providers, subject to contractual rights negotiated and vested with the Location Owner, to have authority to select the intraLATA service provider of choice. In addition to these core provisions, the Telecom Act also provides that: (i) the FCC will determine whether "public interest" payphones should be maintained and, if so, how they should be supported "fairly and equitably"; (ii) prior contracts between location providers and payphone service providers, or interLATA or intraLATA carriers, are "grandfathered"; and, (iii) any state requirements inconsistent with FCC regulations adopted under Section 276 will be "preempted" by the FCC's rules.

The Company has supported the introduction and passage of this payphone section of the Telecom Act, and anticipates that the framework established by this legislation will address many of the fundamental regulatory/competitive problems that have plagued the public communications industry from its inception. While the Company believes that the Telecom Act could lead to enhanced financial performance by the Company, there can be no certainty of such an impact occurring, and the magnitude or timing of such impact, if any, remains subject to significant conjecture pending adoption of the FCC rules mandated by the Telecom Act.

In addition, while the Company believes the enactment and implementation of the payphone provisions of the Telecom Act will result in an overall improvement to the competitive environment in which the Company operates, the Company also recognizes the potential for increased competitive pressures from the RBOCs or other LECs which may be more aggressive in the largely deregulated mode provided for under the Telecom Act. The specific provisions of the FCC's rules addressing the selection of a long distance carrier for the RBOC payphones, the adequacy of the transfer valuation assigned to the RBOC payphone operations upon their removal from regulated rate base accounts and whether the precise "non-structural" safeguards applicable to the RBOCs and LECs are effective in eliminating cross subsidies and discrimination, will all significantly impact the level and scope of competition faced by the Company in the public pay telephone market in the future.

Along with the FCC proceedings to implement the provisions of the Telecom Act, there remain pending several other FCC matters that potentially affect the Company and its operations.

On April 9, 1992, the FCC proposed a new access plan for operator assisted interstate calls dialed on a "0+" basis. Currently "0+" calls are sent directly from the payphone through the LEC network to the operator service provider selected by the host location. Under the proposed access plan, known as "Billed Party Preference" ("BPP"), "0+" calls would be sent instead to the operator service provider chosen by the party paying for the call. The BPP environment allows a telephone user making a 0+ call to bill a call to the user's pre-established carrier at the user's home or office, thereby bypassing the opportunity for the pre-subscribed carrier at the public pay telephone

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to handle and receive revenues from the call and for the Company to earn a commission on the call.

The FCC has tentatively concluded that a nationwide BPP system for interstate operator assisted calls is in the public interest. However, substantial opposition to the BPP proposal has developed and the FCC has taken no action to date. If this system were to be enacted, the Company could experience a reduction in revenues it now receives on these calls and would, accordingly, be unable to pay commissions to location owners for the traffic. The FCC has requested and received public comment on the basic BPP proposal and on the issue of what compensation mechanisms for payphone providers would be necessary in a BPP environment. The proposal remains under consideration by the FCC, and the outcome is uncertain and could be influenced by implementation of the Telecom Act. Specifically, the Telecom Act may require that the Company receive compensation for any completed call routed through BPP.

In addition, the American Public Communications Council ("APCC"), of which the Company is a member, along with other telecommunications companies and trade associations, has filed with the FCC for implementation of a "rate ceiling" on interstate "0+" calls from public pay telephones as an alternative to the BPP proposal. Because the Company utilizes AT&T as its primary interstate carrier from the Company's public pay telephone base nationwide, implementation of a "rate ceiling" regulatory regime by the FCC does not appear to represent a serious financial risk to the Company. However, as with the underlying BPP proposal, the "rate ceiling" alternative is pending before the FCC, and the outcome remains uncertain, and could be influenced by implementation of the Telecom Act.

The FCC also has proceedings underway, or to be initiated, addressing the expansion of "per call" compensation to all interexchange carriers, an increase in the amount of compensation overall and inclusion of 1-800 subscriber calls (i.e., 1-800 FLOWERS/1-800 LLBEAN) in the compensation system. It is anticipated that these later issues will be finally resolved within the context of the FCC's proceedings to implement the Telecom Act, although the Company cannot determine the timing of these events with any certainty or what such resolution may entail.

EMPLOYEES

As of December 31, 1995, the Company had approximately 444 employees, approximately 103 of whom were executive, administrative, accounting, sales or clerical personnel and approximately 341 of whom were installers, maintenance and repair personnel and coin collectors.

ITEM 2. PROPERTIES

The Company's headquarters facility, consisting of a 68,000 square-foot building located at 2300 N.W. 89th Place, Miami, Florida, was purchased for $3.5 million. The facility was subject to a mortgage held by NationsBank in the amount of $2.5 million and bearing interest at the rate of 7.38% per annum, amortizing over 15 years and due in March 1998. The mortgage balance was paid by the Company in 1995.

The Company maintains 21 service facilities which are linked to the Company's headquarters by computer. The Company considers its current facilities adequate for its business purposes.

ITEM 3. LEGAL PROCEEDINGS

In 1993, the Company filed a law suit in the United States District Court for the Southern District of

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Florida against BellSouth Telecommunications, Inc., a unit of BellSouth Corp. that does business as Southern Bell Telephone and Telegraph ("BellSouth"), alleging, among other things, violations of the federal and state antitrust laws based upon alleged monopolization and misrepresentations in connection with BellSouth's operation of its public pay telephone business in Florida. The suit seeks unspecified damages and other relief. In September 1995, the Court entered partial summary judgment against the Company on its federal and state antitrust claims but allowed the Company's common law fraud and misrepresentation claims to remain pending. In March 1996, the Court granted the parties' request for a brief stay of the action to facilitate settlement negotiations. Based upon the current status of the case, the Company is unable to predict the outcome of these negotiations or the litigation.

In 1994, a class action complaint was filed in the United States

District Court, for the Southern District of Florida, by Albert Hirschensohn, et.al., naming the Company, Jeffrey Hanft, Chairman, and Richard Militello, Chief Operating Officer, as defendants. The complaint was later amended to include Robert D. Rubin, the then President. The amended complaint alleged violations of certain federal securities laws through the issuance of "false and misleading" statements in connection with the proposed merger (subsequently terminated) with IDB Communications Group, Inc. and the Company's 1994 results. The amended complaint sought the recovery of unspecified compensatory damages on behalf of the class. In July 1995, the parties agreed to settle this action in its entirety through the establishment of a settlement fund (of which the Company's portion was $925,000). In January 1996, the settlement was approved by the Court and the case was dismissed.

In December 1995, Cellular World, Inc. filed a complaint in Dade County Circuit Court against the Company and its subsidiary, PTC Cellular, Inc., alleging wrongful interference with Cellular World's advantageous business relationship with Alamo Rent-A-Car and infringement upon Cellular World's proprietary cellular car phone rental system equipment. Cellular World is seeking damages alleged to exceed $10 million. The Company believes the complaint is without merit and intends to vigorously contest and defend the action. Based upon the preliminary status of the litigation, the Company is unable to predict the final outcome of the litigation.

The Company is also subject to various ordinary and routine legal proceedings arising out of the conduct of its business. The Company does not believe that the ultimate disposition of these proceedings will have a material adverse effect on its financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year ended December 31, 1995, the Company did not submit any matter to a vote of security holders.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Price Range of Common Stock

The Common Stock of the Company is traded on the National Market System of NASDAQ under the symbol PTEL. The following table sets forth the high and low closing sales prices per share of Common Stock as reported on the National Market System of NASDAQ for the periods indicated. Quotations represent prices between dealers and do not reflect mark-ups, mark-downs or commissions.

	High	Low
Year ended December 31, 1995:		
First Quarter......................	$5.38	$4.00
Second Quarter.....................	5.13	3.88
Third Quarter......................	5.06	3.50
Fourth Quarter.....................	4.00	2.13
	High	Low
Year ended December 31, 1994:		
First Quarter......................	$11.25	$8.25
Second Quarter.....................	15.25	4.75

Third Quarter......................	6.38	3.52
Fourth Quarter.....................	5.50	3.63

As of March 22, 1996, the Company had 589 shareholders of record.

Dividend Policy

The Company has never declared or paid cash dividends on its Common Stock. The Company presently intends to retain all earnings for the operation and development of its business and does not anticipate paying any cash dividends on its Common Stock in the foreseeable future. In addition, the Company's credit agreement precludes the Company from purchasing, redeeming or retiring any of its capital stock without the prior written consent of its lenders or from paying dividends in excess of 25% of the Company's net income. The payment of dividends by the Company also is limited by provisions of the $100.0 million 12 1/4% Senior Notes due 2002 and by the Series C Cumulative Convertible Preferred Stock. Any future determination as to the payment of cash dividends will depend on a number of factors including future earnings, capital requirements, the financial condition and prospects of the Company and any restrictions under credit agreements existing from time to time, as well as such other factors as the Board of Directors may deem relevant. There can be no assurance that the Company will pay any dividends in the future.

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data should be read in conjunction with the consolidated financial statements of the Company and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report. Continuing operations consist primarily of the public pay and inmate telephone businesses. Certain amounts for the prior years have been reclassified to conform with the current year presentation.

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		YEAR ENDED DEC	
	1995	1994	1
		(IN THOUSANDS,	EXCE
<S>	<C>	<C>	<C>
CONSOLIDATED STATEMENT OF OPERATIONS DATA:			
Total revenues..........................	$ 138,391	$ 159,442	$11
Costs and expenses:			
Telephone charges.....................	48,716	67,656	3
Commissions...........................	34,740	32,693	2
Field service and collection..........	23,382	21,334	1
Depreciation and amortization.........	22,451	22,522	1
Selling, general and administrative ..	11,859	14,580	
Interest	9,965	6,668	
Loss from impairment of inmate assets.	4,740	-	
Loss from operations of prepaid calling card and international telephone centers.....	-	1,816	
Loss on disposal of prepaid calling card and international telephone centers.....	566	3,690	
Litigation settlement expense.........	925	-	
Other	5,252	-	
Total costs and expenses................	162,596	170,959	10
(Loss) income from continuing operations			

before income taxes and extraordinary item	(24,205)	(11,517)	1
Benefit from (provision for) income taxes	1,738	4,405	(
Net (loss) income from continuing operations before extraordinary item...........	(22,467)	(7,112)	
Loss from discontinued operations.......	(12,066)	(11,281)	(
Extraordinary item, net................	(3,327)	-	
Net (loss) income......................	$ (37,860)	$ (18,393)	$
(Loss) income per common and common equivalent share from continuing operations	$ (1.43)	$ (.45)	$
Net (loss) income per common and common equivalent share..........................	$ (2.38)	$ (1.17)	$
Net (loss) income per common share assuming full dilution.............................	$ (2.38)	$ (1.17)	$
Weighted average number of outstanding shares of common stock:			
Primary.................................	16,091	15,713	1
Fully diluted...........................	16,091	15,713	1
EBITDA(2).................................	$ 8,211	$ 17,673	$ 2

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	DECEMBE		
	1995 (1)	1994(1)	1
			(IN T
<S>	<C>	<C>	<C>
BALANCE SHEET DATA:			
Working capital (deficit)..............	$ (4,100)	$ (2,421)	$
Total assets...........................	160,071	190,591	17
Total long-term debt and preferred stock (3)	116,463	98,301	7
Shareholders' equity...................	14,288	48,715	6

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(1) The selected financial data presented, as of and for each of the years in the five-year period ended December 31, 1995, have been derived from the consolidated financial statements of the Company. The consolidated financial statements for the year ended December 31, 1995 were audited by Ernst & Young LLP, independent certified public accountants. The consolidated financial statements for the four year period ended December 31, 1994, were audited by Price Waterhouse LLP.

(2) EBITDA represents net earnings before interest, income taxes, depreciation and amortization. EBITDA is not presented as an alternative to operating results or cash flow from operations as determined by generally accepted accounting principles ("GAAP"), but rather to provide additional information related to the ability of the Company to meet current trade obligations and debt service requirements.

(3) Total long-term debt and preferred stock includes the long-term portion of

the Company's notes payable, capital lease obligations and the Series C Cumulative Convertible Preferred Stock and preferred stock dividends payable.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis compares the year ended December 31, 1995 to the year ended December 31, 1994 and the year ended December 31, 1994 to the year ended December 31, 1993, and should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Annual Report.

Overview

In December 1994, in an effort to return the Company's focus to its core public pay telephone business, the Company's Board of Directors approved the divestiture of its inmate telephone, prepaid calling card business and international telephone centers and cellular telephone operations.

During 1995, the Company sold its prepaid calling card business and international telephone center operations for $6.3 million and $2.0 million, respectively. For financial accounting purposes, the operating results of the prepaid calling card business and international telephone centers have been segregated and reported as a separate component of continuing operations (see Note 16 to the accompanying consolidated financial statements).

On October 9, 1995, the Company sold a portion of its inmate telephone operations for approximately $2.4 million, subject to certain regulatory consents and other conditions. During the third quarter of 1995, the Company decided to retain the remaining portion of its inmate telephone operations. This decision is a result of the Company's belief that the remaining operations can contribute to the cash flow and operating results of the Company. The accompanying consolidated financial statements have been reclassified to present the inmate telephone operations as part of continuing operations.

On November 13, 1995, the Company sold its cellular telephone operations for approximately $6.0 million (see Note 17 to the accompanying consolidated financial statements). The results of operations and loss on disposal are included in the consolidated financial statements as discontinued operations.

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The financial results discussed below relate to continuing operations which consist primarily of the public pay and inmate telephone businesses.

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	PERCENTAGE OF TOTAL REVENUES Year Ended December 31,		
	1995	1994	1993
<S>	<C>	<C>	<C>

Revenues			
Coin calls	56.6%	49.8%	48.4%
Non-coin calls	43.3	48.9	51.1
Service and other	0.1	1.0	0.5
Gain on sale of assets	-	0.3	-
Total revenues	100.0	100.0	100.0
Costs and expenses			
Telephone charges	35.2	42.4	33.7
Commissions	25.1	20.5	20.5
Field service and collection	16.9	13.4	11.8
Depreciation and amortization	16.2	14.1	12.9
Selling, general and administrative	8.6	9.2	7.7
Interest	7.2	4.2	2.6
Loss from impairment of inmate assets	3.4	-	-
Loss from operations of prepaid calling card and international telephone centers	-	1.1	1.4
Loss on disposal of prepaid calling card and international telephone centers	0.4	2.3	-
Litigation settlement expense	0.7	-	-
Other	3.8	-	-
Total costs and expenses	117.5	107.2	90.6
(Loss) income from continuing operations before income taxes and extraordinary item	(17.5)	(7.2)	9.4
Benefit from (provision for) income taxes	1.3	2.7	(3.5)
Net (loss) income from continuing operations before extraordinary item	(16.2)%	(4.5)%	5.9%
EBITDA	5.9%	11.1%	24.9%

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Revenues

The Company primarily derives its revenues from coin and non-coin calls. Coin revenue represented approximately 56.6%, 49.8% and 48.4% of total revenues from continuing operations for the years ended December 31, 1995, 1994 and 1993, respectively. Coin revenue is generated exclusively from calls made by depositing coins in the Company's public pay telephones. Coin revenue decreased 1.3% to $78.4 million in 1995 compared to 1994. The Company operated an average of approximately 39,000 public pay telephones in 1995 compared to an average of approximately 38,000 in 1994. The Company believes that the decrease in coin revenue per telephone is due primarily to: (i) the telephones added in 1995 having a lower average coin revenue per telephone than the Company's installed base in 1994; (ii) increased usage of alternative methods of calling such as prepaid calling cards and wireless technologies and (iii) the operation of more public pay telephones in closer proximity to the Company's telephones. Coin revenue increased 40.3% to $79.4 million in 1994 compared to 1993. This revenue growth was primarily attributable to growth in the Company's installed base of public pay telephones. The Company's installed public pay telephone base increased to an average of approximately 38,000 phones in 1994, up from an average of approximately 35,700 phones in 1993. The increase in the Company's 1994 revenues was also attributable to the inclusion of approximately 11,600 public pay telephones from the acquisition of assets from Ascom Communications, Inc. for a full year in 1994 versus approximately two months in 1993.

During the second quarter of 1995, the Company signed a contract with AT&T to act as its primary third-party operator service provider. Prior to the execution of this agreement, non-coin calls were routed through the Company's private label operator service program. The Company records as revenue the total amount the end user pays for the call (net of taxes) when the call is completed through the Company's private label operator service. In contrast, the Company records as revenue the amount it receives from the third-party operator service provider, which represents a negotiated percentage of the total amount the caller pays for the call. The Company uses its private label operator service or a third-party operator service provider based on which service the Company believes nets it the highest gross margin from the call.

Non-coin revenue represented approximately 43.3%, 48.9% and 51.1% of total revenues from continuing operations in 1995, 1994, and 1993, respectively. Non-coin revenue is derived from calling card calls, credit card calls, collect calls and third-party billed calls. In 1995, revenues from non-coin calls decreased by 23.2% to $59.9 million, compared to 1994. This decrease was primarily attributable to an increase in the number of public pay telephone calls placed through third-party operator service providers as opposed to the Company's private label operator service.

Non-coin revenue increased by 30.5% to $78.0 million in 1994 compared to 1993. This increase was primarily attributable to the increase in the Company's installed base of public pay telephones in 1994 as described above and an increase in the percentage of total non-coin calls completed through the Company's private label operator services in 1994 which decreased the percentage of non-coin calls completed by the Company's selected third-party operator service provider.

Also included in non-coin revenue are all calls placed through the Company's inmate telephones. Inmate revenues decreased approximately 38.7% to $26.0 million in 1995, compared to 1994. During 1995, the Company operated approximately 3,000 inmate telephone lines compared to approximately 4,000 in 1994. Inmate revenues grew in 1994 as compared to 1993 by approximately $7.2 million primarily as a result of the completion of several inmate acquisitions in 1993.

Operating Expenses

Operating expenses include telephone charges, commissions, field service and collection expenses and selling, general and administrative expenses. Telephone charges consist of local line charges paid to LECs which include costs of basic service and transport of local coin calls, long-distance transmission charges and network costs and billing, collection and validation costs. Commissions represent payments to Property Owners for revenues generated by public pay telephones located on their properties. Field service and collection expenses represent the costs of servicing and maintaining the telephones on an ongoing basis, costs of collecting coin from the telephones and other related operational costs. Selling, general and administrative expenses primarily consist of payroll and related costs, legal and other professional fees, promotion and advertising expenses, property, gross receipt and certain other taxes, corporate travel and entertainment and various other expenses. Total operating expenses were approximately 85.8%, 85.5% and 73.7% of total revenues from continuing operations for the years ended December 31, 1995, 1994 and 1993, respectively.

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Telephone charges decreased 28.0% to $48.7 million in 1995 compared to 1994. This decrease is primarily a result of the decrease in the number of calls placed through the Company's private label operator service program. The Company paid the costs incurred to transmit, bill, collect and validate the call when the call was completed through its private label operator services. In contrast, the Company incurred no such costs when a third-party operator service provider completed the call. In addition, the Company experienced a decrease in line charges paid in the state of Florida due to regulatory changes which began in the third quarter of 1995. Telephone charges for 1995 included approximately $1.2 million of additional bad debt reserves related to both the inmate and public pay telephone operations. Telephone charges in 1995 included a reduction of interexchange carrier expense related to a settlement with a service provider for certain billing errors and underpayment of operator service revenue of approximately $1.3 million. Telephone charges in 1994 included one-time income adjustments of approximately $0.6 million for a signing bonus and volume discounts credited to the Company by certain of its service providers.

Telephone charges increased 71.7% to $67.7 million in 1994 compared to 1993. This increase was primarily attributable to the increase in the installed public pay telephone base and in the number of calls completed through the Company's private label operator service program during 1994 compared to 1993. In 1993, the Company recorded a refund of telephone charges related to the overcharging of carrier costs and the underpayment of operator service revenues by certain vendors. Despite its ongoing negotiations with such vendors, as of December 31, 1994, due to the length of time elapsed since the original claims and the uncertainty as to the realizability of these refund claims, the Company fully reserved these amounts by a charge of approximately $1.6 million. Telephone charges in 1993 were reduced by approximately $1.7 million for certain excise and state sales and use tax refund claims. In addition, 1993 telephone charges included a one-time reduction of, among other things, validation, royalty and license fees of approximately $1.2 million related to the settlement of a vendor dispute.

Commissions as a percentage of total revenues from continuing operations were approximately 25.1%, 20.5% and 20.5% for the years ended December 31, 1995, 1994 and 1993, respectively. The increase in commissions as a percentage of revenues in 1995 was primarily attributable to: (i) the reduction in revenue as a result of the Company's switch to a third-party operator service provider; (ii) higher commission rates paid in connection with the Atlanta Hartsfield International Airport account and (iii) the loss of certain low, fixed commission inmate contracts. In addition, due to increasing competition in both the public pay telephone and inmate telephone markets, the Company's commission rates for new and renewal contracts have increased.

Field service and collection expenses as a percentage of total revenues from continuing operations was 16.9% in 1995, 13.4% in 1994 and 11.8% in 1993. The 1995 increase was primarily attributable to: (i) the reduction in revenue as a result of the Company's switch to a third-party operator service provider; (ii) approximately $1.7 million recorded for inventory obsolescence reserves and (iii) expenses incurred by the Company for a refurbishing program undertaken to improve the condition of the Company's public pay telephones. The Company currently expects that field service and collection expenses, excluding reserves for inventory obsolescence, will remain relatively constant over the next twelve months, as a percentage of revenues. The increase from 1993 to 1994 was primarily attributable to additional operations personnel, vehicle and rent expenses associated with assimilating acquired public pay telephones into the Company's existing network. Selling, general and administrative expenses decreased to $11.9 million, or 8.6% of total revenues from continuing operations, versus $14.6 million in 1994 and $9.0 million in 1993. The decrease in selling, general and administrative expenses in 1995 was primarily attributable to the cost reduction plan and reengineering efforts commenced by the Company in 1994. In 1994, selling, general and administrative expenses included approximately $1.6 million in non-recurring charges which included, among other things, amounts incurred for settling disputes and claims, severance costs, lease termination charges, and failed merger costs incurred in connection with the IDB transaction.

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Depreciation

Depreciation is based on the cost of the telephones, booths, pedestals and other enclosures, related installation costs and line interconnection charges and is calculated on a straight-line method using seven-year and ten-year useful lives for inmate and public pay telephone equipment, respectively. Amortization is primarily based on acquisition costs, including location contracts, goodwill and non-competition provisions, and is calculated on a straight-line method using estimated useful lives ranging from five to twenty years. Depreciation and amortization increased to $22.5 million in 1995 and 1994 from $15.0 million in 1993. The increase in depreciation and amortization is primarily attributable to increases in the number of installed public pay telephones that resulted from acquisitions in late 1993 and 1994, offset by the sale of a portion of the inmate telephone business and reduction of amortization as a result of the provision for impairment of inmate assets.

Interest

In 1995, interest expense increased 49.4% to $10.0 million. This increase is primarily attributable to the higher interest rate on the Company's $100.0 million of Senior Notes as compared to the rates in effect on the Company's revolving line of credit in existence in 1994 and the inclusion of interest expense in continuing operations previously allocated to the Company's cellular operations which were included in discontinued operations.

In 1994, interest expense increased 117.6% to $6.7 million. The increase was primarily attributable to increased bank borrowings under the Company's revolving line of credit from $67.5 million at December 31, 1993 to $100.2 million at December 31, 1994. The additional borrowings in 1994 under the Company's line of credit include approximately $16.6 million used for public pay telephone acquisitions and $16.1 million used for working capital purposes, which included a portion related to the funding of the discontinued operations. In addition, the Company experienced higher interest rates on its line of credit during 1994, which is consistent with overall increases in market interest rates for that period.

Provision for Impairment of Inmate Assets

During the third quarter of 1995, the Company made a decision to retain the remaining portion of its inmate telephone operations. The Company's 1994 results included approximately $4.0 million for the anticipated loss on disposal and $0.1 million for the anticipated operating losses from January 1, 1995 through disposition. The inmate division's actual operating losses for the period it was accounted for as discontinued operations were $0.1 million. In 1995, the $4.0 million accrual for loss on disposal was reversed in discontinued operations and recorded in continuing operations as an impairment of assets. Also included in the 1995 results of operations is approximately $0.4 million for the loss on disposal of a portion of the inmate telephone business and a $0.4 million write-off of intangible assets associated with contracts not renewed by the Company.

Loss on Disposal of Prepaid Calling Card and International Telephone Centers

Loss on disposal of prepaid calling card and international telephone centers includes the write-off of approximately $1.1 million of accounts receivable related to the Company's prepaid calling card business offset by $0.5 million received in connection with the Company's sale of its international telephone center operations (see Note 16 to the accompanying consolidated financial statements).

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Litigation Settlement Expense

During 1995, the Company settled a lawsuit brought by two shareholders against the Company and certain of its officers (see Note 15 to the accompanying consolidated financial statements).

Other

Other expenses are comprised of approximately $0.6 million of losses for the Company's equity interest in an unconsolidated affiliate, approximately $1.4 million for the settlement of an employment contract with a former officer and approximately $3.2 million of reserves for potentially uncollectible loans receivable from certain officers (see Note 18 to the accompanying consolidated financial statements). No such expenses were incurred in 1994 or 1993.

Provision for Income Taxes

During 1995, the Company recorded approximately $1.7 million in income tax benefits. Approximately $1.5 million of these tax benefits relate to the provision for impairment of inmate assets which, in 1995, was reversed in discontinued operations and recorded in continuing operations. This benefit was previously reflected in discontinued operations and recorded in December 1994. During 1995, the Company recorded valuation allowances of approximately $12.0 million against deferred tax assets that may not be realized.

The Company's benefit from (provision for) income taxes increased $8.5 million in 1994 primarily due to a loss from continuing operations before income taxes and extraordinary item of approximately $11.5 million, compared to income from continued operations before taxes of approximately $11.0 million in 1993.

Net (Loss) Income from Continuing Operations before Extraordinary Item

The Company had a net loss from continuing operations before extraordinary item of approximately $22.5 million in 1995 compared to a net loss from continuing operations before extraordinary item of approximately $7.1 million in 1994 and net income from continuing operations before extraordinary item of approximately $6.9 million in 1993.

Extraordinary Loss

As a result of debt modifications during 1995, the Company recorded extraordinary losses from the write-off of deferred financing costs associated with the early extinguishment of debt of approximately $5.0 million, before the related income tax benefit of approximately $1.7 million.

Earnings Before Interest, Taxes, Depreciation and Amortization

EBITDA is not presented as an alternative to operating results or cash flow from operations as determined by Generally Accepted Accounting Principles ("GAAP"), but rather to provide additional information related to the ability of the Company to meet current trade obligations and debt service requirements. EBITDA should not be considered in isolation from, or construed as having greater importance than, GAAP operating income or cash flows from operations as a measure of an entity's performance.

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EBITDA from continuing operations decreased by $9.5 million in 1995 to $8.2 million compared to 1994. This decrease is attributable to: (i) a $4.7 million provision for the impairment of assets of the inmate telephone business; (ii) approximately $3.2 million of reserves related to officer loans receivables; (iii) approximately $1.4 million related to the settlement of an officer employment agreement; (iv) the write-off of approximately $1.1 million of accounts receivable related to the prepaid calling card business; (v) approximately $0.9 million for the settlement of the shareholders' lawsuit; (vi) adjustments recorded for bad debt and inventory obsolescence as discussed above and (vii) the increase in commission expenses offset by decreases in telephone charges noted above.

EBITDA from continuing operations decreased by $11.4 million to $17.7 million in 1994 compared to 1993. The calculation of EBITDA does not reflect adjustments for interest, depreciation and amortization included within the Loss from operations of prepaid calling card and international telephone centers and the Loss on disposal of prepaid calling card and international telephone centers as presented in the accompanying financial statements. The decrease was primarily attributed to approximately $3.8 million of non-recurring charges which include the $1.4 million of non-recurring charges in telephone charges and the $1.7 million of non-recurring charges in selling, general and administrative expenses discussed above. EBITDA also included approximately $1.8 million of losses related to the operations of the prepaid calling card and international telephone center business and a provision of approximately $3.7 million for the estimated impairment of asset value and losses from January 1, 1995 through the divestiture date. In addition, 1993 continuing operations included approximately $2.9 million of non-recurring income.

Liquidity and Capital Resources

During the year ended December 31, 1995, the Company financed its operations from operating cash flow and net proceeds received in July 1995 from the issuance of $100.0 million of Senior Notes due 2002 (the "Senior Notes") and $15.0 million of Cumulative Convertible Preferred Stock (the "Preferred Stock"). The Company's operating cash flow was $10.8 million compared to $(0.2) million in 1994 and $20.1 million in 1993.

The Company's working capital deficit was approximately $4.1 million, with a current ratio of .86 to 1, at December 31, 1995. This is compared to a working capital deficit of $2.4 million and a current ratio of .94 to 1 at December 31, 1994. The change in the Company's working capital is primarily a result of the write down of the net assets of discontinued operations which were included in current assets as of December 31, 1994 and the accrual of certain other liabilities related to the disposition of the cellular telephone operations. This decrease is partially offset by approximately $12.2 million of debt repayments which were reclassified from current liabilities to long-term debt as a result of the July 1995 refinancing transaction.

In an effort to extend its debt maturities to reflect the long-term nature of its assets and to provide increased operational and financial flexibility to take advantage of growth opportunities in its core public pay telephone business, the Company completed a private placement of Senior Notes and Preferred Stock in July 1995. In addition to the above transactions, the Company entered into a new $40.0 million revolving credit facility (the "New Credit Facility"). Proceeds from the sale of the Senior Notes, together with the proceeds from the sale of the Preferred Stock, were used to repay the prior credit facility and various other obligations of the Company.

At December 31, 1995, the Company was not in compliance with certain financial covenants contained in the New Credit Facility. The Company has obtained a waiver for the non-compliance from its lender. The Company and the

Bank have agreed to amend certain terms of the New Credit Facility which will,

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among other things, decrease the credit facility to $10.0 million and reduce the requirements of certain restrictive financial covenants. The amended credit facility will bear interest at prime rate plus 2% and will require the repayment of all outstanding principal balances in September 1997. As of December 31, 1995, the Company had no amounts borrowed under the credit facility.

Based upon current expectations, the Company believes that cash flow from operations, together with amounts which may be borrowed under the amended credit facility, will be adequate for it to meet its working capital requirements, pursue its business strategy and service its obligations with respect to the Senior Notes, although there can be no assurance that it will be able to do so.

Discontinued Operations

During December 1994, the Company's Board of Directors approved the divestiture of its cellular telephone rental operations. In the December 31, 1994 consolidated financial statements, the Company recorded a provision for the estimated losses of the cellular telephone business from January 1, 1994 through the anticipated divestiture date.

On November 13, 1995, the Company sold its cellular telephone operations to Shared Technologies Cellular, Inc. ("STC") for approximately $6.0 million. The assets were sold for $0.3 million in cash, a $2.0 million promissory note bearing interest at 8.0% with principal and interest payable semiannually through 2000, shares of STC common stock, a $2.5 million potential revenue earn out and payment of approximately $1.2 million of PTCC's liabilities by STC. For financial accounting purposes, the $2.5 million potential earn out will be recognized as received. This transaction has resulted in a loss of approximately $14.6 million which has been recorded as a loss on disposal in the accompanying statements of operations for the year ended December 31, 1995. The difference between the actual loss and the estimated loss on disposal resulted from, among other things, changes in market conditions, disputes over liabilities for cellular cloning charges, decreased revenue attributable to PIN numbers introduced by the cellular carriers to prevent cloning and a delay in creating a new phone technology to deal with PIN numbers and other matters (see Note 17 to the accompanying consolidated financial statements).

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
Peoples Telephone Company, Inc.

We have audited the consolidated balance sheet of Peoples Telephone Company, Inc. and subsidiaries as of December 31, 1995, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedule for the year ended December 31, 1995 listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Peoples Telephone Company, Inc. and subsidiaries at December 31, 1995, and the consolidated results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the year ended December 31, 1995, when considered in relation to the basic financial statement takes as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Miami, Florida
March 8, 1996

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders'
of Peoples Telephone Company, Inc.

In our opinion, the consolidated financial statements as of December 31, 1994 and for the years ended December 31, 1994 and 1993 listed in the accompanying index present fairly, in all material respects, the financial position of Peoples Telephone Company, Inc. and its subsidiaries (the Company) at December 31, 1994 and the results of their operations and their cash flows for the years ended December 31, 1994 and 1993, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Peoples Telephone Company, Inc. and its subsidiaries for any period subsequent to December 31, 1994.

The accompanying financial statements as of December 31, 1994 and for the years ended December 31, 1994 and 1993 have been prepared assuming the Company will continue as a going concern. The Company's failure to make an April 1995 payment due on a promissory note and the restatement of the Company's first quarter 1994 financial statements on Form 10-Q has caused a default under the Company's revolving line of credit and under the Company's mortgage note agreement. The Company obtained from the lenders a waiver of default related to its first quarter 1994 restatement and subject to certain conditions being met by the Company by June 30, 1995, obtained a waiver of default arising from its failure to make the April 1995 payment on a promissory note. With respect to its mortgage note agreement, the Company obtained a waiver subject to the condition that on or before the earlier of one day after the closing of the Senior Note offering or August 31, 1995 the mortgage note and all other obligations owed the mortgage lender be paid in full. In the event the conditions are not satisfied by their prescribed dates, the waivers would be withdrawn, an event of default under the revolving line of credit and the mortgage note agreement would exist and the lenders would have the right to call the loans. Also, should the Company satisfy the aforementioned conditions by the prescribed dates, the Company's remaining balance of its revolving line of credit is due in full on May 31, 1996. The Company is in the process of offering under an exemption from the registration requirements of the Securities Act of 1933, $100 million of Senior Notes due 2002; the proceeds of which, if such offering is successful, together with a proposed $40 million credit agreement, will be used to repay the outstanding balance of the other line of credit, the promissory notes and the mortgage note. As a result, a substantial doubt arises about the Company's ability to continue as a going concern. The accompanying financial statements as of December 31, 1994 and for the years ended December 31, 1994 and 1993 do not include any adjustments that might result from the outcome of this uncertainty.

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To the Board of Directors and Shareholders

of Peoples Telephone Company, Inc.
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A complaint has been filed against the Company and certain officers on May 25, 1994 and amended May 26, 1995, which alleges violation of certain federal securities laws through the issuance of false and misleading statements regarding a failed merger. The complaint seeks class action certification as well as compensatory damages. In addition the aforementioned promissory note holder has asserted certain other claims against the Company. At the present time, the litigation matters are in the preliminary stage and management, on the advice of legal counsel, is presently unable to predict the ultimate outcome of the litigation. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements as of December 31, 1994 and for the years ended December 31, 1994 and 1993.

PRICE WATERHOUSE LLP

Miami, Florida
March 28, 1995, except as to the second paragraph of Note 18 (except for the statement related to Mr. Hanft's resignation), and the matters discussed in the second and third paragraphs of this report, which are as of May 31, 1995.

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<TABLE>
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PEOPLES TELEPHONE COMPANY, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

ASSETS	DECEMBER 31, 1995	DECEMBER 31, 1994
<S>	<C>	<C>
Current assets		
Cash and cash equivalents	$ 12,366	$ 7,663
Accounts receivable, net of allowance for doubtful accounts of $5,108 in 1995 and $6,035 in 1994	7,100	17,682
Inventory	1,990	2,994
Prepaid expenses and other current assets	3,764	3,411
Net assets of prepaid calling card and international telephone center business	--	2,595
Net assets of discontinued operations	--	6,809
Total current assets	25,220	41,154
Property and equipment, net	78,201	87,757
Location contracts, net	29,270	35,040
Goodwill, net	8,904	9,303
Intangible assets, net	2,620	3,994
Deferred income taxes	3,407	1,453
Investment in unconsolidated affiliate	3,736	1,500
Other assets, net	8,713	10,390
Total assets	$ 160,071	$ 190,591
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable and current maturities of long-term debt	$ 506	$ 14,718
Current portion of obligations under capital leases	1,156	2,306
Accounts payable and accrued expenses	19,603	22,799
Accrued interest payable	5,603	1,061
Income and other taxes payable	2,452	2,691

Total current liabilities	29,320	43,575
Notes payable and long-term debt	101,259	95,934
Obligations under capital leases	1,318	2,367
Total liabilities	131,897	141,876
Commitments and contingencies (Notes 14 and 15)	--	--
Preferred Stock		
Cumulative convertible preferred stock Series C, $.01 par value; 160 shares authorized; 150 shares issued and outstanding	13,413	--
Preferred stock dividends payable	473	--
Total preferred stock	13,886	--
Shareholders' equity		
Preferred stock; $.01 par value; 4,140 shares authorized; none issued and outstanding	--	--
Convertible preferred stock; Series B, $.01 par value; 600 shares authorized; none issued and outstanding .	--	--
Common stock; $.01 par value; 25,000 shares authorized; 16,108 in 1995 and 15,789 in 1994 shares issued and outstanding	161	158
Capital in excess of par value	61,573	58,143
Accumulated deficit	(47,446)	(9,586)
Total shareholders' equity	14,288	48,715
Total liabilities and shareholders' equity	$ 160,071	$ 190,591

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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PEOPLES TELEPHONE COMPANY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	FOR THE YEAR ENDED DECEMBER 31, 1995	1994	
<S>	<C>	<C>	<C>
Revenues			
Coin calls	$ 78,353	$ 79,392	$
Non-coin calls	59,916	77,994	
Service and other	122	1,615	
Gain on sale of asset	--	441	
Total revenues	138,391	159,442	1
Costs and expenses			
Telephone charges	48,716	67,656	

Commissions	34,740	32,693	
Field service and collection	23,382	21,334	
Depreciation and amortization	22,451	22,522	
Selling, general and administrative	11,859	14,580	
Interest	9,965	6,668	
Loss from impairment of inmate assets	4,740	--	
Loss from operations of prepaid calling card and international telephone centers	--	1,816	
Loss on disposal of prepaid calling card and international telephone centers	566	3,690	
Litigation settlement expense	925	--	
Other	5,252	--	
Total costs and expenses	162,596	170,959	1
(Loss) income from continuing operations before income taxes and extraordinary item.	(24,205)	(11,517)	
Benefit from (provision for) income taxes	1,738	4,405	
Net (loss) income from continuing operations before extraordinary item	(22,467)	(7,112)	
Discontinued operations			
Loss from operations, net of tax benefit (provision) of $2,293 in 1994 and $(1,113) in 1993	--	(3,961)	
Loss on disposition, including a tax provision of $(1,521) in 1995 and $(1,885) in 1994	(12,066)	(7,320)	
Loss from discontinued operations	(12,066)	(11,281)	
Extraordinary loss from extinguishment of debt, net of income tax benefit of $(1,737)	(3,327)	--	
Net (loss) income	$ (37,860)	$ (18,393)	$
Primary and fully diluted earnings per share			
(Loss) income from continuing operations	$ (1.43)	$ (.45)	$
(Loss) from discontinued operations	(.75)	(.72)	
Extraordinary loss, net	(.20)	--	
Net (loss) income	$ (2.38)	$ (1.17)	$
Weighted average common and common equivalent shares outstanding	16,091	15,713	
Weighted average common shares outstanding assuming full dilution	16,091	15,713	

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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PEOPLES TELEPHONE COMPANY, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE PERIOD FROM JANUARY 1, 1993 THROUGH DECEMBER 31, 1995

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(in thousands, except per share data)

	SERIES B PREFERRED STOCK	COMMO
<S>	<C>	<C>
Balance at January 1, 1993	$ -	$
Exercise of 540 warrants at $3.17-$4.67 per share..............	-	
Exercise of 1,754 options at $2.00-$8.00 per share.............	-	
Issuance of 621 shares of common stock for acquisitions........	-	
Issuance of 1,500 shares of common stock in public offering...	-	
Issuance costs associated with public offering of common stock	-	-
Tax adjustment related to exercising options	-	-
Net income for the year..	-	-
Balance at December 31, 1993...................................	$ -	$
Exercise of 150 warrants at $3.17 per share....................	-	
Exercise of 177 options at $2.67-$7.83 per share...............	-	
Cancellation of 54 shares relating to prior acquisitions........	-	
Tax adjustment related to exercising options...................	-	-
Adjustment for issuance of warrants to a bank..................	-	-
Officer and director notes receivable..........................	-	-
Net loss for the year..	-	-
Balance at December 31, 1994...................................	$ -	$
Exercise of 93 options at $2.00-$3.59 per share................	-	
Issuance of 224 shares for prior acquisitions..................	-	
Series C Preferred stock dividends accrued.....................	-	
Preferred stock issuance cost and warrant accretion............	-	
Issuance of 275 preferred stock warrants.......................	-	
Write-off of Officer and Director notes receivable.............	-	
Net loss for the year..	-	
Balance at December 31, 1995...................................	$ -	$

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(WIDE TABLE CONTINUED FROM ABOVE)
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	RETAINED EARNINGS (ACCUMULATED DEFICIT)
	<C>
Balance at January 1, 1993	$ 3,465
Exercise of 540 warrants at $3.17-$4.67 per share..............	-
Exercise of 1,754 options at $2.00-$8.00 per share.............	-
Issuance of 621 shares of common stock for acquisitions........	-
Issuance of 1,500 shares of common stock in public offering...	-
Issuance costs associated with public offering of common stock	-
Tax adjustment related to exercising options	-
Net income for the year..	5,342
Balance at December 31, 1993...................................	$ 8,807
Exercise of 150 warrants at $3.17 per share....................	-
Exercise of 177 options at $2.67-$7.83 per share...............	-
Cancellation of 54 shares relating to prior acquisitions........	-
Tax adjustment related to exercising options...................	-

Adjustment for issuance of warrants to a bank..................		-
Officer and director notes receivable..........................		-
Net loss for the year..		(18,393)

Balance at December 31, 1994...................................	$	(9,586)
		========
Exercise of 93 options at $2.00-$3.59 per share................		-
Issuance of 224 shares for prior acquisitions..................		-
Series C Preferred stock dividends accrued.....................		-
Preferred stock issuance cost and warrant accretion............		-
Issuance of 275 preferred stock warrants.......................		-
Write-off of Officer and Director notes receivable.............		-
Net loss for the year..		(37,860)

Balance at December 31, 1995...................................		$(47,446)
		========

</TABLE>
The accompanying notes are an integral part of these consolidated financial statements.

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PEOPLES TELEPHONE COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FOR THE DECE	
	1995	
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (37,860)	$ (1
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	22,451	2
Deferred income taxes	(1,954)	(
Extraordinary loss on debt extinguishment	5,064	
Equity in losses of unconsolidated affiliate	621	
Loss on disposition of assets, net	15,906	
Write-off of officer receivables	3,555	
Changes in assets and liabilities, excluding the effect of acquisitions:		
Decrease (increase) in accounts receivable, net.........	7,335	
Decrease (increase) in inventory	1,004	(
Decrease (increase) in prepaid expenses and other current assets	1,156	
Decrease (increase) in other assets	2,694	(
(Decrease) increase in accounts payable and accrued expenses	(6,859)	(
Decrease in other payables	--	
Increase in accrued interest payable	4,542	
(Increase) decrease in income and other taxes payable ..	(239)	
(Decrease) increase in minority interest	--	
Net effect of discontinued operations and assets held for sale	(6,579)	(
	---------	----
Net cash provided by (used in) operating activities	10,837	
	---------	----
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment additions	(5,189)	(1
Proceeds from property and equipment sales	3,595	